

**VIRGINIA MILITARY INSTITUTE  
LEXINGTON, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**



## **AUDIT SUMMARY**

Our audit of Virginia Military Institute for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we consider to be a reportable condition; however, we do not consider this to be a material weakness;
- an instance of noncompliance required to be reported.

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March 25, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Visitors  
Virginia Military Institute

We have audited the accounts and records of **Virginia Military Institute**, as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Military Institute as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Institute has implemented a new financial reporting model, as required by the provisions of *GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and*

*Analysis - for State and Local Governments, and Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities as of June 30, 2002.*

The management's discussion and analysis on pages seven through ten is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Virginia Military Institute. The Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Schedule of Auxiliary Enterprises Revenue, Expenditures, and Changes in Fund Balances has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Military Institute as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

### Compliance

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. This instance of noncompliance is described in the section titled "Internal Control and Compliance Finding and Recommendation."

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institute's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the section titled "Internal Control and Compliance Finding and Recommendation."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

The “Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 24, 2003.

AUDITOR OF PUBLIC ACCOUNTS

WHC:whb  
whb:44

## INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

### Actively Pursue Compliance with the Commonwealth of Virginia Information Technology Resource Management Standard SEC2001-01.1

The Department of Technology Planning has developed and issued a comprehensive technology standard that addresses the fundamental technology safeguards and business and security concerns facing individual agencies and institutions. This standard provides a basic blueprint of how an institution should go about inventorying, evaluating, and formulating a response to business, security, operating, and other risk issues that affect an entity highly dependant on technology if that technology should fail and the institution wants to continue operations. Virginia Military Institute's Information Security Program does not meet this standard nor does VMI have the internal policies, procedures, control and security as a substitute for this standard.

Missing policies, procedures, or standards include, but are not limited to an Incident Response Procedure; Consideration of Disasters involving data damage from malicious user actions; and a policy on exceptions to the established information security policies. Test work revealed that VMI's firewall policy provides inadequate guidance to determine appropriate filtering and did not define the process for ensuring that changes to the firewall configuration receive proper review, documentation, and approval.

To comply with this standard, VMI must continue its efforts to fill an authorized and funded position in the department in order to ensure that it develops its Comprehensive Information Security Program. As part of the development process VMI must ensure that it has adequate policies, procedures, standards, and guidelines. The development of an incident response procedure, in combination with a contingency management program that includes consideration of logical as opposed to physical disasters will help ensure that the Institute can respond appropriately to all disasters. The development of the Comprehensive Information Security Program in combination with appropriate new and revised policies, procedures, and standards that arise from its development will help ensure that the Institute has appropriate controls in place to protect its information systems and the data they contain.

Failure to develop, implement, and ensure compliance with an Information Security Program increases the probability that safeguards over critical agency operations and information are inadequate to protect the confidentiality, integrity, and availability of data, information, and systems.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB 34*, which applies the new reporting standards to public institutions of higher education. As component units of the Commonwealth of Virginia, public institutions of higher education will implement GASB Statement 35 at the same time the state government implements GASB Statement 34.

The new financial reporting standards significantly change the appearance and nature of the required financial information. The major changes are: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the Institute's activities. The Institute has elected to not restate prior periods for purposes of providing the comparative data for this Management's Discussion and Analysis. However, in future years, when prior period information is available, a comparative analysis will be presented.

### Statement of Net Assets

The Statement of Net Assets presents the Institute's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2002. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the Institute's operations. They are also able to determine how much the Institute owes vendors and creditors.

Net Assets are divided into three major categories. The first category, "Invested in capital assets, net of related debt," provides the Institute's equity in property, plant, and equipment owned by the Institute. The next category is "Restricted net assets," which is divided into two subcategories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the Institute, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable restricted resources typically represent the corpus of endowments available only for investment purposes. The final category is "Unrestricted" net assets and they are available for any lawful purpose of the Institute.

Assets:	
Current assets	\$ 11,988,236
Capital assets, net	50,454,038
Other noncurrent assets	<u>18,722,791</u>
Total assets	<u>81,165,065</u>

Liabilities:	
Current liabilities	5,370,788
Noncurrent liabilities	<u>3,291,976</u>
Total liabilities	<u>8,662,764</u>
Net Assets:	
Invested in capital assets, Net of related debt	48,432,850
Restricted – expendable	12,977,577
Restricted – nonexpendable	4,515,837
Unrestricted	<u>6,576,037</u>
Total net assets	<u>\$ 72,502,301</u>

### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in the total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the Institute's operating and nonoperating revenues recognized and expenses paid and any other revenues, expenses, gains, and losses received or incurred by the Institute.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the Institute. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the Institute's mission.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, the Institute's state appropriations are nonoperating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

Operating revenues:	
Tuition and fees, net of scholarship allowances of \$3,183,200	\$ 7,898,929
Grants and contracts	604,429
Auxiliary enterprises, net of scholarship allowances of \$2,813,766	7,460,416
Unique military activities, net of scholarship allowances of \$328,948	821,966
Other sources	<u>865,596</u>
Total operating revenues	<u>17,651,336</u>
Operating expenses:	
Instruction	12,287,073
Research	149,866
Public service	1,125,320
Academic support	4,526,136
Student services	2,723,621
Institutional support	3,954,621
Operation and maintenance - plant	3,453,987
Scholarships and related expenses	743,445
Auxiliary enterprises	11,194,496
Unique military activities	3,202,910
Other operating expenses	<u>2,298</u>
Total operating expenses	<u>43,363,773</u>

Operating loss	(25,712,437)
Nonoperating revenues and expenses:	
State appropriations	13,461,380
Private gifts	10,402,752
Other nonoperating revenues (expenses)	<u>(588,317)</u>
Net nonoperating revenues	<u>23,275,815</u>
Income (loss) before other revenues, expenses, gains or losses	(2,436,622)
Other revenues, expenses, gains, or losses	<u>2,301,399</u>
Increase (decrease) in net assets	(135,223)
Net assets – beginning of year	<u>72,637,524</u>
Net assets – end of year	<u>\$ 72,502,301</u>

VMI's total net assets of \$72.5 million is only slightly down from a balance of \$72.6 million as of June 30, 2001 and reflects VMI's continued strong financial position. Operating revenues increased over last year due to a 1.7 percent growth in total enrollment and increases in tuition and fee rates of 3.9 percent for in-state cadets and 5.7 percent for out-of-state cadets. The percentage of the total enrollment represented by in-state cadets grew from 49.6 percent to 50.6 percent. Private fund support from VMI's alumni agencies also shows continued growth.

#### Statement of Cash Flows

The final statement presented by the Institute is the Statement of Cash Flows. This statement presents detailed information about the Institute's cash activity during the year. It is divided into five parts: operating activities, noncapital financing activities, investing activities, capital and related financing activities, and reconciliation of the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Net cash used by operating activities	(\$24,243,469)
Net cash provided by noncapital financing activities	24,005,510
Net cash used by capital and related financing activities	(1,312,099)
Net cash provided by investing activities	<u>1,102,435</u>
Net decrease in cash	(447,623)
Cash – beginning of year	<u>7,624,707</u>
Cash – end of year	<u>\$ 7,177,084</u>

#### Capital Asset and Debt Administration

There were no significant capital asset additions during the year and no new long-term debt incurred.

For fiscal year 2002-2003, VMI will be debt financing a \$2.5 million renovation of Jackson Memorial Hall (auditorium and museum) and a \$2.2 million addition to Cocke Hall (physical education facility) through bonds issued by the Virginia College Building Authority (VCBA). VMI's note to the VCBA for payment of debt service on the bonds will require semi-annual payments of principal and interest totaling approximately

\$350,000 annually with interest at approximately 4 percent per annum. Interest only is payable during FY 2002-2003 with both principal and interest due commencing in FY 2003-2004. VMI plans to fund the debt service from increases in cadet fees and from private funds.

### Economic Outlook

The State's revenue collections are expected to fall short of the amount budgeted in the State's 2002-2004 Biennial Budget. Consequently, the State has reduced state appropriations to institutions and agencies. VMI's state appropriations for operations have been reduced by approximately \$2.4 million for FY 2002-2003 and by \$3.1 million for FY 2003-2004. Compared to FY 2001-2002, this is a reduction in total appropriations for operations of approximately 18 percent and 23 percent, respectively. The State has also reduced annual state appropriations for maintenance reserve projects from \$1.6 million to \$263,000. Further reductions are possible should the State's revenues continue to fall short of the forecast.

VMI is primarily reducing its operating expenses to account for the reduction in revenues and will be increasing tuition and fees in FY 2003-2004. These reductions are affecting the level of services that VMI can provide, but VMI expects no significant disruption in its operations or programs. The reduction in State revenues will likely result in some decrease in VMI's net assets.

## **FINANCIAL STATEMENTS**

VIRGINIA MILITARY INSTITUTE  
STATEMENT OF NET ASSETS  
As of June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents (Note 3)	\$ 6,971,440
Cash equivalent held with Treasurer of Virginia (Note 3)	35,721
Collateral held for securities lending (Note 3)	361,187
Accounts receivable, Net of allowance for doubtful accounts of \$79,145 (Note 4 )	398,930
Due from the Commonwealth (Note 9)	22,636
Prepaid expenditures	538,334
Inventory (Note 5)	2,823,537
Loans receivable	836,451
Total current assets	<u>11,988,236</u>

Noncurrent assets:

Cash and cash equivalents (Note 3)	205,644
Cash and investment with trustees (Note 3)	16,385,569
Investments held with the Treasurer of Virginia (Note 3)	1,223
Appropriations available	1,452,933
Notes receivable	210,000
Loans receivable, Net of allowance for doubtful accounts of \$32,217	467,422
Capital assets, Net of accumulated depreciation (Note 7)	50,454,038
Total noncurrent assets	<u>69,176,829</u>
Total assets	<u>81,165,065</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses (Note 6)	2,830,465
Deferred revenue	767,966
Obligations under securities lending	396,908
Deposits held for others	366,630
Long-term liabilities - current portion: (Note 8)	
Compensated absences	682,396
Notes payable (Note 9)	230,000
Capital lease payable (Note 9)	83,662
Installment purchase obligation (Note 9)	12,761
Total current liabilities	<u>5,370,788</u>

Noncurrent liabilities:

Federal loan program contributions refundable	1,178,971
Retainage payable (Note 10)	27,338
Long-term liabilities - noncurrent portion: (Note 8 )	
Compensated absences	486,041
Notes payable (Note 9)	1,560,000
Capital lease payable (Note 9)	14,085
Installment purchase obligation (Note 9)	25,541
Total noncurrent liabilities	<u>3,291,976</u>
Total liabilities	<u>8,662,764</u>

VIRGINIA MILITARY INSTITUTE  
STATEMENT OF NET ASSETS  
As of June 30, 2002

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NET ASSETS	
Invested in capital assets, net of related debt	48,432,850
Restricted-Nonexpendable	
Endowment	4,515,837
Restricted-Expendable	
Scholarships and other	1,125,171
Loan funds	481,764
Quasi-endowment-restricted	9,954,886
Capital projects	1,415,757
Unrestricted	<u>6,576,036</u>
Total net assets	<u>\$ 72,502,301</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA MILITARY INSTITUTE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2002

Operating revenues:	
Tuition and fees, Net of scholarships allowances of \$3,183,200	\$ 7,898,929
Federal grants and contracts	556,306
State grants and contracts	23,022
Private grants	25,101
Sales and services of educational departments	22,210
Auxiliary enterprises, Net of scholarship allowances of \$2,813,766	7,460,416
Unique military activities, Net of scholarships allowances of \$328,948	821,966
Other sources	840,245
Interest on student loans	3,141
Total operating revenues	<u>17,651,336</u>
Operating expenses:	
Instruction	12,287,073
Research	149,866
Public service	1,125,320
Academic support	4,526,136
Student services	2,723,621
Institutional support	3,954,621
Operation and maintenance - plant	3,453,987
Scholarships and related expenses	743,445
Auxiliary enterprises	11,194,496
Unique military activities	3,202,910
Other operating expenses	2,298
Total operating expenses (Note 11)	<u>43,363,773</u>
Operating loss	<u>(25,712,437)</u>
Nonoperating revenues (expenses):	
State appropriations (Note 12)	13,461,380
Private gifts	10,402,752
Investment income (loss)	(423,435)
Interest on capital asset - related debt	(132,116)
Loss on disposal of plant assets	(32,766)
Net nonoperating revenues	<u>23,275,815</u>
Income (loss) before other revenues	<u>(2,436,622)</u>
Other revenues:	
State appropriations - capital	1,555,828
Gifts - capital	742,429
Investment income - capital	3,142
Total other revenues	<u>2,301,399</u>
Decrease in net assets	(135,223)
Net assets - beginning of the year, as restated (Note 1)	<u>72,637,524</u>
Net assets - end of year	<u>\$ 72,502,301</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA MILITARY INSTITUTE  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2002

Cash flows from operating activities:

Tuition and fees	\$ 7,936,655
Federal grants and contracts	556,306
State grants and contracts	23,022
Private grants	25,101
Sales and services - educational and general	48,934
Auxiliary charges	7,467,963
Unique military activity charges	820,280
Other operating receipts	839,896
Payments to employees - salaries and benefits	(25,345,509)
Payments for supplies and services	(16,627,451)
Loans issued to students	(213,644)
Collections of loans from students	224,978
Net cash used by operating activities	<u>(24,243,469)</u>

Cash flows from noncapital financing activities:

State appropriations	13,461,380
Gifts and grants for other than capital purposes	10,402,752
Agency receipts	2,967,217
Agency disbursements	<u>(2,825,839)</u>
Net cash provided by noncapital financing activities	<u>24,005,510</u>

Cash flows from capital and related financing activities:

Capital appropriations	1,663,660
Capital gifts	742,429
Proceeds from sale of capital assets	40,404
Purchase of capital assets	(2,791,347)
Principal paid on capital debt, leases and installments	(856,572)
Interest paid on capital debt, leases and installments	(113,815)
Investment income - capital	3,142
Net cash used by capital and relating financing activities	<u>(1,312,099)</u>

Cash flows from investing activities:

Interest on investments	244,914
Investment/endowment income	268,573
Sale of investments	1,114,468
Purchase of investments	<u>(525,520)</u>
Net cash provided by investing activities	<u>1,102,435</u>

Net decrease in cash (447,623)

Cash - beginning of year 7,624,707

Cash - end of year \$ 7,177,084

Reconciliation of cash and cash equivalents to the Statement of Net Assets:

Cash and cash equivalents classified as current assets	\$ 6,971,440
Cash and cash equivalents classified as noncurrent assets	<u>205,644</u>
Total cash - end of year	<u><u>\$ 7,177,084</u></u>

VIRGINIA MILITARY INSTITUTE  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2002

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Reconciliation of net operating expenses to net cash used by operating activities:

Operating loss	\$ (25,712,437)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	2,802,361
Changes in assets and liabilities:	
Accounts receivable	70,514
Inventories	(631,195)
Prepaid expenditures	32,156
Due from Commonwealth	(13,034)
Accounts payable and accrued liabilities	(774,268)
Deposits held in custody for others-security deposits	226,325
Deferred revenue	(4,020)
Loans receivable	(160,598)
Retainage payable	(191,335)
Compensated absences	20,973
Other liabilities	(80,000)
Federal loan program contributions refundable	171,089
Net cash used in operating activities	<u>\$ (24,243,469)</u>

Noncash investing, noncapital financing, and capital related financing transactions:

Fixed assets acquired by incurring capital lease obligations	\$ 25,948
Principal and interest on capital lease debt paid by State agency on behalf of the Institute	\$ 198,519
Change in fair value of investments recognized as a component of investment income/(loss)	\$ 3,970,912

The accompanying Notes to Financial Statements are an integral part of this statement.

## **NOTES TO FINANCIAL STATEMENTS**

## VIRGINIA MILITARY INSTITUTE

### NOTES TO FINANCIAL STATEMENTS

As of June 30, 2002

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Virginia Military Institute (VMI) have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the Institute are as follows:

##### A. Reporting Entity

The Virginia Military Institute believes that the measure of a college lies in the quality and performance of its graduates and their contributions to society.

Therefore, it is the mission of the Virginia Military Institute to produce educated, honorable men and women prepared for the varied work of civil life, imbued with love of learning, confident in the functions and attitudes of leadership, possessing a high sense of public service, advocates of the American Democracy and free enterprise system, and ready as citizen-soldiers to defend their country in time of national peril.

To accomplish this result, Virginia Military Institute shall provide to qualified young men and women undergraduate education of highest quality – embracing engineering, science, and the arts – conducted in, and facilitated by, the unique VMI system of military discipline.

A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

##### B. Financial Statement Presentation

The Institute's accounting policies conform with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with *GASB Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and *GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. As a component unit of the Commonwealth of Virginia, the Institute was required to adopt GASB No. 34 and No. 35 effective July 1, 2001. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Institute's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets; and (2) reporting summer school revenues and expenses between fiscal years.

C. Basis of Accounting

For financial statement purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

D. Cash and Cash Equivalents

In accordance with the *GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

E. Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Inventories

Inventories are valued at cost using the first-in, first-out method.

G. Capital Assets

Capital Assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the Institute as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Library materials are valued using published average prices for library acquisitions. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	50 Years
Other Improvements	10 - 30 Years
Equipment	5-25 Years
Library Materials	10 Years

H. Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 2002. This is primarily composed of revenue for student tuition and fees received in advance of the next semester or term.

I. Accrued Compensated Absences

Non-faculty salaried employees' attendance and leave regulations make provision for the granting of a specified number of days of leave with pay each year. Instructional personnel do not earn leave. The amount of leave earned but not taken as of June 30, 2002, is recorded as a liability on the Statement of Net Assets. The liability reflects all earned vacation, compensatory, and overtime leave not taken as well as the amount payable under the Commonwealth of Virginia's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or \$5,000 per employee with five or more years of service. Also included is an estimation of sick leave for those employees who, while not currently vested, will probably attain the five years of service required to vest. The last element reflected in this liability is Social Security and Medicaid taxes to be paid by the Institute on all accrued compensated absences.

J. Federal Financial Assistance Programs

The Institute participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, Audit of States, Local Governments and Non-Profit Organizations, and the Compliance Supplement.

K. Net Assets

GASB Statement No. 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances.

The Institute's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Institute's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the Institute is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Also included in unrestricted net assets are funds that have been set aside by the Board of Visitors as quasi-endowments. These funds are treated the same as true endowment funds, however, unlike true endowments they may be expended.

The Institute has no policy regarding flow assumption to determine which assets (restricted or unrestricted) are being used when both restricted and unrestricted assets are available for the same purpose. Our practice is to allow Department Heads to make this determination and they typically spend unrestricted assets prior to spending restricted resources.

In connection with the implementation of GASB Statements Number 34 and 35, the following adjustments were made to reflect this accounting change:

Fund balance reported at June 30, 2001	\$129,107,967
Accumulated depreciation on capital assets at June 30, 2001, not previously recorded	(54,772,059)
Federal loan program contributions previously recorded as fund balance in loan funds, now recorded as liability	(1,007,882)
Restate deferred revenue balance reported at June 30, 2001, to reflect accounting change in recording of summer school	20,092
Write-off equipment previously capitalized that does not meet current capitalization threshold	<u>(710,594)</u>
Net asset balance at July 1, 2001	<u>\$ 72,637,524</u>

#### L. Classification of Revenues

The Institute has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of

scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on student loans.

**Nonoperating revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, GASB No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB No. 34, such as state appropriations and investment income.

**Scholarship Discounts and Allowances:** Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institute, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Institute's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the Institute has recorded a scholarship discount and allowance.

## 2. AFFILIATED ORGANIZATION

The financial statements do not include the assets, liabilities, and fund balance of the Virginia Military Institute Research Laboratories, Incorporated. The VMI Research Laboratories, Inc., a private, non-profit Virginia corporation, was established to encourage and promote scientific investigations and other types of research by the faculty, staff, and students. The Research Laboratory was audited by other auditors whose report was furnished to the Institute. Amounts summarized below are based solely upon the report of the other auditor.

Following is a condensed summary of the financial position of the VMI Research Laboratories, Inc. as of June 30, 2002:

Assets	<u>\$ 474,290</u>
Liabilities and fund balance:	
Liabilities	309,282
Fund balance	<u>165,008</u>
Total liabilities and fund balance	<u>\$ 474,290</u>

The cash receipts and disbursements of the VMI Research Laboratories Inc. were \$750,854 and \$749,855 respectively, for the year ended June 30, 2002.

## 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

### A. Cash and Cash Equivalents

All of VMI's cash is maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia.

B. Cash and Investments with Trustees

VMI's investments are categorized below to give an indication of the level of credit risk assumed by the Institute at June 30, 2002. Credit risk is the risk that the Institute may not be able to obtain possession of its investment or collateral at maturity.

Category 1 – Insured or registered securities or securities held by the Institute or its safekeeping agent in the Institute's name.

Category 2 – Uninsured or unregistered, with securities held by the counter party's trust department or agent in the Institute's name.

Category 3 – Uninsured or unregistered with securities held by the counter party, or by its trust department or agent but not in the Institute's name.

	<u>June 30, 2002</u>
Cash:	
Deposits with financial institutions	\$ 1,026,458
Cash with Treasure of Virginia	5,123,075
Petty cash	<u>11,275</u>
Total cash	<u>6,160,808</u>
Cash Equivalents:	
Repurchase Agreement (Category 3)	<u>\$ 1,016,276</u>
Cash and Investments with Trustee:	
Non-categorized	\$ 16,361,148
Cash equivalent –Non-categorized	<u>24,421</u>
Total cash and investments with trustees	<u>\$ 16,385,569</u>
Investments with the Treasurer of Virginia:	
State Non-Arbitrage Program(SNAP)	\$ 1,223
Collateral held for Securities Lending	361,187
Cash equivalent-Securities Lending	<u>35,721</u>
Total investments with Treasurer of Virginia	<u>\$ 398,131</u>
Total cash, cash equivalents and investments	<u>\$ 23,960,784</u>

C. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

D. Funds Held In Trust By Others

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Assets. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$95,811 for the year ended June 30, 2002, and is included in the endowment income.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002:

Student tuition and fees	\$ 166,043
Other educational & general	40,934
Auxiliary enterprises	11,753
Unique military activity	11,313
Agency funds	225,229
Other	<u>22,803</u>
Total	478,075
Less: Allowance for doubtful accounts	(79,145)
Net accounts receivable	<u>\$ 398,930</u>

5. INVENTORIES

Inventories consisted of the following at June 30, 2002:

Physical Plant	\$ 31,069
Military Store	2,586,716
Museums	99,517
VMI Hospital	<u>6,235</u>
Total inventories	<u>\$ 2,823,537</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

Employee salaries, wages & benefits payable	\$ 2,235,687
Vendors and supplies accounts payable	564,443
Other accrued liabilities	<u>30,335</u>
Total accounts payable and accrued liabilities	<u>\$ 2,830,465</u>

## 7. CAPITAL ASSETS

A summary of changes in various capital asset categories for the year ending June 30, 2002 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 1,667,896	\$ -	\$ -	\$ 1,667,896
Construction in progress	<u>799,720</u>	<u>814,012</u>	<u>(334,377)</u>	<u>1,279,355</u>
Total Nondepreciable Capital Assets	<u>2,467,616</u>	<u>814,012</u>	<u>(334,377)</u>	<u>2,947,251</u>
Depreciable Capital Assets:				
Buildings	83,358,653	712,039		84,070,692
Land improvements	2,147,453	74,702		2,222,155
Equipment	9,077,114	751,844	(754,957)	9,074,001
Library books	<u>9,144,705</u>	<u>221,408</u>	<u>(40,592)</u>	<u>9,325,521</u>
Total Depreciable Capital Assets	<u>103,727,925</u>	<u>1,759,993</u>	<u>(795,549)</u>	<u>104,692,369</u>
Less Accumulated Depreciation For:				
Buildings	41,353,040	1,735,379		43,088,419
Land improvements	1,033,789	113,635		1,147,424
Equipment	4,629,965	715,066	(348,245)	4,996,786
Library books	<u>7,755,265</u>	<u>238,280</u>	<u>(40,592)</u>	<u>7,952,953</u>
Total Accumulated Depreciation	<u>54,772,059</u>	<u>2,802,361</u>	<u>(388,837)</u>	<u>57,185,582</u>
Depreciable Capital Assets	<u>48,955,866</u>	<u>(1,042,368)</u>	<u>(406,712)</u>	<u>47,506,787</u>
Total Capital Assets, net	<u>\$ 51,423,482</u>	<u>\$ (228,355)</u>	<u>\$ (741,089)</u>	<u>\$ 50,454,038</u>

## 8. NONCURRENT LIABILITIES

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 9) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending June 30, 2002 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable	\$ 409,489	\$ -	\$ (409,489)	\$ -	\$ -
Notes payable	2,010,000	-	(220,000)	1,790,000	230,000
Capital leases	287,344	25,948	(215,545)	97,747	83,662
Installment purchases	<u>60,628</u>	<u>-</u>	<u>(22,326)</u>	<u>38,302</u>	<u>12,761</u>
Total long-term debt	2,767,461	25,948	(867,360)	1,926,049	326,423
Accrued compensated absences	<u>1,147,466</u>	<u>795,808</u>	<u>(774,837)</u>	<u>1,168,437</u>	<u>682,396</u>
Total long-term liabilities	<u>\$ 3,914,927</u>	<u>\$ 821,756</u>	<u>\$ (1,642,197)</u>	<u>\$ 3,094,486</u>	<u>\$ 1,008,819</u>

## 9. LONG-TERM INDEBTEDNESS

Balance as of  
June 30, 2002

### Notes Payable

Loan agreement with the Virginia College Building Authority to finance the installation of a computer network in Barracks that represents the Institute's share of revenue bonds issued by the Authority under its pooled bond program. The note is payable in annual installments, varying from \$205,000 to \$285,000, with final payment on 1 December 2008 and interest payable semi-annually at 3.7 percent to 4.1 percent. The principal and interest will be paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging cadets a debt service fee.

\$ 1,790,000

Maturities of notes payable for years succeeding June 30, 2002 are as follows:

2003	\$ 230,000
2004	235,000
2005	245,000
2006	255,000
2007	265,000
2008-2011	<u>560,000</u>
Total	<u>\$ 1,790,000</u>

### Installment Purchase Obligations

The Institute has future obligations under installment purchase agreements. The book value of the assets capitalized under these installment purchase agreements is \$67,080 with interest of 8.5 percent. A summary of future obligations under these agreements as of June 30, 2002 follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 12,761	\$ 81	\$ 12,842
2004	10,216	-	10,216
2005	10,216	-	10,216
2006	<u>5,109</u>	<u>-</u>	<u>5,109</u>
Total	<u>\$ 38,302</u>	<u>\$ 81</u>	<u>\$ 38,383</u>

### Capital Leases Payable

VMI is the lessee of equipment under capital leases expiring in various years through 2005. The assets under capital leases are recorded as property, plant and equipment at the lower of the net present value of the minimum lease payments during the lease term or the fair market value of the asset.

VMI received allocations made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority.

For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 2002, are as follows:

<u>Year Ending June 30,</u>	<u>Equipment Trust Fund</u>	<u>Other Capital Leases</u>	<u>Total</u>
2003	\$ 78,342	\$ 9,960	\$ 88,302
2004	-	9,960	9,960
2005	-	8,916	8,916
2006	<u>-</u>	<u>3,280</u>	<u>3,280</u>
Total minimum lease payments	78,342	32,116	110,458
Less: Executory costs	-	9,316	9,316
Interest	<u>-</u>	<u>3,395</u>	<u>3,395</u>
Present value of net minimum lease payments	<u>\$ 78,342</u>	<u>\$ 19,405</u>	<u>\$ 97,747</u>

Interest rates on capitalized leases vary from 5.5 percent to 6.75 percent.

### Equipment Trust Fund

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the Institute and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the Institute. For fiscal years 1999 and following, financing agreements for ETF were changed so that the Institute now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling \$22,636 at June 30, 2002 represents equipment purchased by the Institute that was not reimbursed by the VCBA at year-end.

## Operating Leases

VMI is committed under various operating leases for equipment. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Institute's Statement of Net Assets. In general, the leases are for a three-year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$81,937 for the year ended June 30, 2002.

Year Ending June 30,	Amount
2003	\$ 70,078
2004	43,044
2005	13,601
2006	2,976
2007	<u>1,240</u>
Total	<u>\$ 130,939</u>

## 10. RETAINAGE PAYABLE

At June 30, 2002, \$27,338 was held by the Institute as retainage on various contracts for work, which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

## 11. EXPENSES BY NATURAL CLASSIFICATIONS

The Institute's operating expenses by natural classification were as follows:

Program	Personal Services	Supplies	Contractual Services	Equipment	Utilities	Student Aid	Other Operating Expense	Depreciation Expense	TOTAL
Instruction	\$10,428,936	\$ 280,970	\$ 530,907	\$ 64,743	\$ -	\$ -	\$ 60,404	\$ 921,113	\$ 12,287,073
Research	86,425	24,005	23,845	2,552	-	-	13,039	-	149,866
Public service	595,041	188,112	292,483	10,163	-	-	2,629	36,892	1,125,320
Academic support	2,669,792	94,405	637,702	288,878	-	-	157,858	677,501	4,526,136
Student services	1,387,968	143,302	818,524	52,702	-	-	118,944	202,181	2,723,621
Institutional support	2,488,680	140,804	904,945	130,439	6,979	-	201,177	81,597	3,954,621
Operation & maintenance – plant	2,159,510	406,036	-	71,466	560,215	-	88,588	168,172	3,453,987
Student aid	24,670	1,714	32,652	12	-	679,580	4,817	-	743,445
Auxiliary enterprises	3,128,469	531,076	4,290,773	308,354	233,448	-	2,154,476	547,900	11,194,496
Unique military activities	2,392,445	116,375	65,763	27,488	-	-	433,834	167,005	3,202,910
Other operating expenditures	-	-	-	-	-	2,298	-	-	2,298
Total operating expenditures	<u>\$25,361,936</u>	<u>\$1,926,799</u>	<u>\$7,597,594</u>	<u>\$ 956,797</u>	<u>\$800,642</u>	<u>\$681,878</u>	<u>\$3,235,766</u>	<u>\$ 2,802,361</u>	<u>\$ 43,363,773</u>

## 12. STATE APPROPRIATIONS

Virginia Military Institute receives state appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. The fiscal year 2002 ended the biennium.

During the year ended June 30, 2002, the Institute received the following supplemental appropriations in accordance with Section 1-134 of the Appropriation Act of 2002, Chapter 814, Acts of Assembly:

Original legislative appropriation:	
Educational & general programs	\$ 11,018,318
Unique military activity	4,150,853
Student financial assistance	519,851
Adjustments:	
Prior year balance adjustment	686,267
Mandated budget reductions	(331,165)
Additional budget reductions	(786,267)
Salary adjustments	31,868
Fringe benefit adjustments	(271,456)
Insurance premium adjustments	(6,095)
Utility adjustments	(12,212)
ETF lease payment – NGF portion	(22,690)
Appropriation transfers:	
SCHEV programs	51,408
Virginia Tech	(1,305,300)
Virginia Tech – Reversion	(34,000)
Mary Baldwin – Reversion	<u>(228,000)</u>
Adjusted Appropriations	<u>\$ 13,461,380</u>

## 13. RETIREMENT AND PENSION SYSTEMS

Employees of the Institute are employees of the Commonwealth of Virginia. Most full-time classified salaried employees of the Institute participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The Institute Post Police officers participate in the Virginia Law Officers Retirement System, (VaLORS), instead of VRS. Both VRS and VaLORS are agent multiple-employer public employee retirement systems (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The Institute's payroll cost for employees covered by VRS was \$11,898,707 for the year ended June 30, 2002. The Institute's total payroll cost was \$21,301,245 for the year ended June 30, 2002.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute are established, can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The Institute's total VRS contribution was \$970,759 for year ended June 30, 2002, which included the 5 percent employee contribution assumed by the employer. These contributions represent 5.83 percent of covered payroll for 2002.

The Institute's payroll cost for employees covered by VaLORS was \$189,729 for the year ended June 30, 2002. The Institute's total VaLORS contribution was \$29,171 for the year ended June 30, 2002, which represents 6.10 percent of the covered payroll for the fiscal year.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2002. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

#### TIAA/CREF Insurance Company ORP

Some full-time faculty and contracted administrative staff participate in a retirement annuity program through TIAA/CREF Insurance Companies rather than the VRS. This is a fixed-contribution program where the retirement benefits received are based entirely upon the employer's (10.4 percent) contributions, plus interest and dividends, with the employer assuming the employee's contribution share.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately \$461,640 for year ended June 30, 2002. Contributions to the TIAA/CREF Insurance Companies were calculated using the base salary amount of approximately \$4,438,836 for fiscal year 2002.

#### Other Defined Contribution Pension Plans

The Institute also contributes to four other defined contributions pension plans, which are insignificant in relation to VRS and TIAA/CREF. Full-time faculty, certain administrative staff who hold academic rank, and athletic coaches are eligible to participate in several optional retirement programs (ORP) other than VRS and TIAA/CREF. Retirement benefits received are based entirely upon the employer's (10.4 percent) contributions, plus interest and dividends, with the employer assuming the employee's contribution share.

Amounts contributed to VALIC were calculated using the base salary amount of approximately \$246,186 for fiscal year ended June 30, 2002. Total pension costs under this plan were approximately \$25,603 for fiscal year 2002.

Amounts contributed to Fidelity Investments were calculated using the base salary amount of approximately \$541,044 for fiscal year ended June 30, 2002. Total pension costs under this plan were approximately \$56,269 for fiscal year 2002.

Amounts contributed to T. Rowe Price were calculated using the base salary amount of approximately \$409,886 for fiscal year ended June 30, 2002. Total pension costs under this plan were approximately \$42,628 for fiscal year 2002.

Amounts contributed to Met Life were calculated using the base salary amount of approximately \$45,370 for the fiscal year ended June 30, 2002. Total pension costs under this plan were approximately \$4,718 for fiscal year 2002.

#### 14. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered Statewide group life insurance program which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the State's health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

#### 15. RISK MANAGEMENT

The Institute is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Institute participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Institute pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

#### 16. CONTINGENCIES

The Institute has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Institute.

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2002 the Institute estimates that no material liabilities will result from such audits or questions.

## **SUPPLEMENTARY INFORMATION**

VIRGINIA MILITARY INSTITUTE  
SCHEDULE OF AUXILIARY ENTERPRISES REVENUE AND EXPENDITURES  
For the Year Ended June 30, 2002

	Food Services	Residential Facilities	Laundry	Student Health
Operating revenues:				
Cadet fees	\$ 3,006,796	\$ 1,331,620	\$ 192,759	\$ 134,070
Sales and services	190,275	331,805	-	-
Interest	-	-	-	-
Total operating revenues per SRECNA	3,197,071	1,663,425	192,759	134,070
Federal funds-work study	-	-	-	552
Reverse activity for items netted on SRECNA:				
Scholarship allowances for auxiliary fees	1,292,384	567,434	84,135	56,933
Auxiliary sales to other Institute departments	-	45,064	3,089	-
Total operating revenues	4,489,455	2,275,923	279,983	191,555
Operating expenditures:				
Personal services	-	372,367	115,738	133,574
Supplies and materials	15,239	153,026	13,922	-
Equipment	15,966	45,523	7,802	806
Contractual services	3,197,162	178,726	1,760	1,964
Continuous charges	402,676	924,559	13,336	6,508
Miscellaneous	-	-	-	-
Cost of goods sold	-	-	-	-
Depreciation expense	49,984	94,018	11,031	2,232
Total operating expenses per SRECNA	3,681,027	1,768,219	163,589	145,084
Reverse activity for items netted on SRECNA:				
Expenses for auxiliary sales to Institute departments	-	45,064	3,089	-
Depreciation expense	(49,984)	(94,018)	(11,031)	(2,232)
Total operating expenses	3,631,043	1,719,265	155,647	142,852
Net income (loss) from operations	858,412	556,658	124,336	48,703
Nonoperating revenues (expenses):				
Investment income	-	-	-	-
Gifts	-	3,000	-	6,820
Net nonoperating revenues (expenses)	-	3,000	-	6,820
Net income (loss) before transfers	858,412	559,658	124,336	55,523
Transfers: Nonmandatory				
Transfers from unrestricted local pool	-	-	-	-
Net increase (decrease) for the year	\$ 858,412	\$ 559,658	\$ 124,336	\$ 55,523

(A) These expenditures are related to the Auxiliary Administration account and the Auxiliary Contingency account and are not identified with a specific auxiliary.

(B) Interest earned on the auxiliary reserve cash balance at the Commonwealth, not allocable to any particular auxiliary enterprise.

(1) Other column represents amounts not specifically identifiable to a particular auxiliary.

Stores and Shops	Student Union	Parking	Cameron Hall	Athletics	Other (1)	Total
\$ 78,999	\$ 549,204	\$ -	\$ 183,911	\$ 1,049,011	\$ -	\$ 6,526,370
11,709	-	10,660	5,513	384,084	-	934,046
-	-	-	-	-	-	-
90,708	549,204	10,660	189,424	1,433,095	-	7,460,416
-	3,683	-	-	-	-	4,235
34,793	239,752	-	80,339	457,996	-	2,813,766
684	-	-	-	-	-	48,837
126,185	792,639	10,660	269,763	1,891,091	-	10,327,254
5,018	336,338	-	69,744	2,085,831	9,859	3,128,469
9,032	97,677	-	12,889	68,429	10,908	381,122
14,975	40,026	-	-	169,233	14,023	308,354
68,800	165,223	-	9,456	658,859	8,822	4,290,772
3,303	212,645	-	81,200	517,206	226,001	2,387,434
-	-	-	-	-	490	490
149,954	-	-	-	-	-	149,954
18,613	28,146	6,032	84,906	238,066	14,873	547,901
269,695	880,055	6,032	258,195	3,737,624	284,976	11,194,496
684	-	-	-	-	-	48,837
(18,613)	(28,146)	(6,032)	(84,906)	(238,066)	(14,873)	(547,901)
251,766	851,909	-	173,289	3,499,558	270,103	10,695,432
(125,581)	(59,270)	10,660	96,474	(1,608,467)	(270,103)	(368,178)
-	-	-	-	-	180,471	180,471
-	11,560	-	-	1,343,859	-	1,365,239
-	11,560	-	-	1,343,859	180,471	1,545,710
(125,581)	(47,710)	10,660	96,474	(264,608)	(89,632)	1,177,532
-	-	-	-	326,791	-	326,791
\$ (125,581)	\$ (47,710)	\$ 10,660	\$ 96,474	\$ 62,183	\$ (89,632)	1,504,323

Fund balance at beginning of year (as restated) 2,377,407

Fund balance at end of year \$ 3,881,730

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Lexington, Virginia

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